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Checklists and illustrative financial statements for defined contribution pension plans : a financial accounting and reporting practice aid, May 1996 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Linda Delahanty

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AICPA

**MAY 1996
EDITION**

Checklists and Illustrative Financial Statements for Defined Contribution Pension Plans

*A Financial Accounting and
Reporting Practice Aid*

AMERICAN

INSTITUTE OF

CERTIFIED

PUBLIC

ACCOUNTANTS

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS IN THE SERIES

Checklists and Illustrative Financial Statements for Corporations

Checklist Supplements and Illustrative Financial Statements

Checklist Supplement and Illustrative Financial Statements for Construction Contractors

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Checklist Supplement and Illustrative Financial Statements for Real Estate Ventures

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Checklists and Illustrative Financial Statements for Banks and Savings Institutions

Checklists and Illustrative Financial Statements for Common Interest Realty Associations

Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans

Checklists and Illustrative Financial Statements for Defined Contribution Plans

Checklists and Illustrative Financial Statements for Employee Health and Welfare Benefit Plans

Checklists and Illustrative Financial Statements for Health Care Organizations

Checklists and Illustrative Financial Statements for Life Insurance Companies

Checklists and Illustrative Financial Statements for Not-for-Profit Organizations

Checklists and Illustrative Financial Statements for Property and Liability Insurance Companies

Checklists and Illustrative Financial Statements for State and Local Governmental Units



**MAY 1996
EDITION**

Checklists and Illustrative Financial Statements for Defined Contribution Pension Plans

*A Financial Accounting and
Reporting Practice Aid*

*Edited by
Linda Delahanty, CPA
Technical Manager, Accounting and Auditing Publications*

*Checklists and Illustrative Financial Statements for Defined
Contribution Pension Plans has not been approved, disapproved,
or otherwise acted upon by any senior technical committees
of the American Institute of Certified Public Accountants
or the Financial Accounting Standards Board and has no
official or authoritative status.*

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FSP Section 8000

Checklists for Defined Contribution Pension Plans

.01 The checklists included in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists do not include all disclosures and presentation items promulgated. Pronouncements deemed remote for audits of defined contribution plans are not included in this document.
- The checklists are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists have been updated to include relevant pronouncements through Statement on Auditing Standards No. 79, FASB Statement of Financial Accounting Standards No. 124, FASB Interpretation No. 41, FASB Technical Bulletin No. 94-1, AICPA Statement of Position No. 95-5, AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (with conforming changes as of May 1, 1996)¹, AICPA Practice Bulletin No. 14, and EITF consensuses adopted up to and including the January 18, 1996, Emerging Issues Task Force meeting. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.
- The checklists do not represent minimum requirements and do not purport to be all inclusive. The referenced standards should be reviewed if clarification is needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the financial statements.

.02 Users of the checklists are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

.03 We value users’ input so please submit all suggestions to improve the quality of this checklist as they arise. We give all comments consideration when updating the checklist. Comments can be sent to:

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Note: This publication was extracted from sections 8,000 through 8,400 of the AICPA *Financial Statement Preparation Manual* (FSP).

¹ This checklist has been updated through the Audit and Accounting Guide *Audits of Employee Benefit Plans* with conforming changes as of May 1, 1996 (the Guide), prior to the Guide’s release. All appropriate disclosures have been included in the checklist, although paragraph references to the final Guide may differ from those of the draft Guide.

FSP Section 8100

Introduction

Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution retirement plans, and health and welfare benefit plans (both defined benefit and defined contribution). Defined contribution retirement plans provide an individual account for each participant and provide benefits that are based on (a) amounts contributed to the participant's account by the employer or employee, (b) investment experience, and (c) any forfeitures allocated to the account, less any administrative expenses charged to the plan. These plans include profit-sharing plans, money purchase pension plans, stock bonus and employee stock ownership plans (ESOPs), thrift or savings plans including 401(k) arrangements, and certain target benefit plans.

.02 Defined contribution retirement plans may be single employer plans or multiemployer plans. In addition, these plans may be funded through accumulated contributions and investment income (self-funded plans), insurance contracts (insured plans), or a combination of both (split-funded plans). In the context of this checklist, reference to defined contribution plans refers to defined contribution retirement plans only and does not include health and welfare benefit plans (see the separate publication, *Checklist and Illustrative Financial Statements for Health and Welfare Benefit Plans*, that includes both defined benefit and defined contribution health and welfare benefit plans).

Regulatory Requirements

.03 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements. (Appendix A of the Audit and Accounting Guide *Audits of Employee Benefit Plans* describes which plans are covered by ERISA.)

.04 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL and the IRS. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC (Pension Benefit Guaranty Corporation), may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA.

.05 Some defined contribution plans are required to register and report to the Securities and Exchange Commission (SEC). When securities are registered (typically on Form S-8) to be offered to employees pursuant to any employee benefit plan, the plan is required to file annual reports to the SEC on Form 11-K. Regulation S-X prescribes the form of the statements of financial position and statements of income and changes in plan equity that those plans must file with the SEC. The SEC has amended its rules for Form 11-K to permit plans subject to ERISA to file financial statements in accordance with ERISA rather than Regulation S-X. It is important to note however that "limited scope" audits or financial statements prepared on an "Other Comprehensive Basis of Accounting" (OCBOA), such as the modified cash basis, which are generally acceptable under ERISA regulations, are not considered acceptable for SEC filings. In addition, financial statements in accordance with ERISA included in an 11-K filing are due within 180 days after the plan's fiscal year; an 11-K filing which includes financial statements under Regulation S-X are due within 90 days after the plan's fiscal year.

Financial Accounting and Reporting Standards

.06 The Audit and Accounting Guide *Audits of Employee Benefit Plans* describes generally accepted accounting principles for accounting and financial reporting for defined contribution plans. Except for certain differences in determining plan benefits, defined contribution plans are similar to defined benefit pension plans and accordingly, the guidance is consistent with the accounting and reporting standards in FASB Statement of Financial Accounting Standards (SFAS) 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*. SFAS 35, as amended, establishes generally accepted accounting principles for defined benefit pension plans.

.07 The AICPA Statement of Position (SOP) 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined Contribution Pension Plans*, specifies the accounting and reporting for defined contribution plan investment contracts. This SOP is effective for financial statements for plan years beginning after December 15, 1994, except that the application of this SOP to investment contracts entered into before December 31, 1993, is delayed to plan years beginning after December 15, 1995.

Accounting and Reporting by Defined Contribution Retirement Plans

.08 Defined contribution plan financial statements intended to be presented in accordance with generally accepted accounting principles should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year. (ERISA requires that this statement be presented in comparative form.)
- A statement of changes in net assets available for benefits for the year then ended.

.09 Except as noted in the following paragraph, plan investments are generally presented at their fair value at the reporting date and assets used in plan operations are presented at cost less accumulated depreciation or amortization.

.10 Defined contribution plans should report fully-benefit responsive investment contracts at contract value, which may or may not be equal to fair value, and other investment contracts at fair value. If, however, plan management is aware that an event has occurred that may affect the value of the contract (for example, a decline in the creditworthiness of the contract issuer) pursuant to SFAS 5, *Accounting for Contingencies*, disclosure of the event or reporting the investment at less than contract value may be appropriate.

.11 In addition to the reporting requirements of SFAS 35, as amended, and the Audit and Accounting Guide *Audits of Employee Benefit Plans* defined contribution plans may have reporting requirements under ERISA. Schedules required by ERISA include the following:

- Line 27a—Schedule of Assets Held for Investment Purposes
- Line 27b—Schedule of Loans or Fixed Income Obligations
- Line 27c—Schedule of Leases in Default or Classified as Uncollectible
- Line 27d—Schedule of Reportable Transactions
- Line 27e—Schedule of Nonexempt Transactions
- Line 27f—Schedule of Nonexempt Transactions

Please refer to the Instructions to Form 5500 for schedule requirements.

Transition

.12 Accounting changes adopted to conform to the provision of SOP 94-4 should be made as of the beginning of the year in which the change is adopted. The effect of initially applying SOP 94-4 should be reported in a manner similar to the cumulative effect of a change in accounting principle (APB Opinion 20, *Accounting Changes*, paragraph 20). Pro forma effects of the retroactive application (APB Opinion 20, paragraph 21) are not required. Restatement of financial statements of prior years is not permitted.

FSP Section 8200

Checklists—General

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners, as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Statements of Position, and EITF consensus. Some checklists also include references to FASB Interpretations, FASB Technical Bulletins, and the AICPA Audit and Accounting Guides. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialing each question or point to show that it has been considered. The format used herein is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared where needed. Some preparers, however, prefer to include space for remarks in the body of the checklist, while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements," and "in notes" (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

FSP Section 8300

Financial Statements and Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> —with conforming changes as of May 1, 1996 ¹
SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Interpretation
APB =	AICPA Accounting Principles Board Opinion
ARB =	AICPA Accounting Research Bulletin
AC =	Reference to section number in <i>FASB Accounting Standards—Current Text</i>
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
SOP =	AICPA Statement of Position
EITF =	Emerging Issues Task Force consensuses
PB =	AcSEC Practice Bulletin
CFR =	Code of Federal Regulations
DOL =	Department of Labor
ERISA =	Employee Retirement Income Security Act of 1974
PBGC =	Pension Benefit Guaranty Corporation

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the plan. Place a check mark by the topics or sections considered not applicable; these sections need not be completed. For example, if the entity has not or is not being terminated, place a check by General, Section K, "Plan Terminations," and skip this section when completing the checklist.

*Place ✓ by
Sections Not Applicable*

• General

- A. Financial Statements
- B. Comparative Financial Statements
- C. Titles and References

¹ This checklist has been updated through the Audit and Accounting Guide *Audits of Employee Benefit Plans* with conforming changes as of May 1, 1996 (the Guide), prior to the Guide's release. All appropriate disclosures have been included in the checklist, although paragraph references to the final Guide may differ from those of the draft Guide.

	<i>Place ✓ by Sections Not Applicable</i>
D. Description of Defined Contribution Plan	_____
E. Disclosure of Accounting Policies	_____
F. Description of Plan Amendments	_____
G. Accounting Changes	_____
H. Related-Party Transactions	_____
I. Contingencies and Commitments	_____
J. Subsequent Events	_____
K. Plan Terminations	_____
L. Income Tax Status	_____
M. Financial Instruments	_____
N. Derivatives	_____
O. Risks and Uncertainties	_____
P. Other Matters	_____
• Statement of Net Assets Available for Benefits	
A. General	_____
B. Classification of Investments	_____
C. Investment and Insurance Contracts	_____
D. Operating Assets	_____
E. Contributions Receivable and Uncollectible Amounts	_____
F. Cash	_____
G. Liabilities	_____
• Statement of Changes in Net Assets Available for Benefits	
A. General	_____
B. Contributions	_____
C. Investment Earnings	_____
D. Other Changes	_____
• ERISA Reporting Requirements	
A. Form 5500 Series Report	_____
B. Financial Statement Disclosures Required Under the Alternative Method of Compliance or Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA	_____
C. Required Financial Statements and Supporting Schedules	_____
• Auditors' Reports Checklist	_____
	<u>Yes</u> <u>No</u> <u>N/A</u>

General

A. Financial Statements²

1. Do the annual financial statements of the plan include:
 - a. A "Statement of Net Assets Available for Benefits" as of the end of plan year? (ERISA requires that this statement be presented in comparative form.)

² Some defined contribution plans are required to register and report to the Securities Exchange Commission (SEC). The SEC has amended its rules on Form 11-K to permit plans subject to ERISA to file financial statements in accordance with ERISA rather than in accordance with Regulation S-X. Please refer to the instructions to Form 11-K for additional information.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? [AAG, par. 3.10]	_____	_____	_____
c. If the plan provides for a participant-directed investment program:			
(1) A statement of Net Assets Available for Benefits With Fund Information as of the end of the plan year?	_____	_____	_____
(2) A Statement of Changes in Net Assets Available for Benefits with Fund Information for the year then ended?	_____	_____	_____
<hr/> Note: The information in Step 1.c. above can be alternatively presented in a multicolumnar format on the face of the financial statements, in the notes to the financial statements, or in separate financial statements for each investment fund option. [AAG, par. 3.23k; AAG, App. J; PB 12] <hr/>			
2. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, the results of transactions and events that affect the information about those resources, and other factors necessary for users and participants to understand the information provided? [SFAS 35, par. 5 (AC Pe5.104); AAG, par. 3.09]	_____	_____	_____
B. Comparative Financial Statements			
1. Are comparative statements considered? ³ [ARB 43, Ch. 2A, pars. 1 and 2 (AC F43.101 and .102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the prior years presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
C. Titles and References			
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
2. Does each statement include a general reference that the notes are an integral part of the financial statements? [Generally Accepted]	_____	_____	_____
D. Description of Defined Contribution Plan			
1. Do disclosures include a brief, general description of the plan agreement, including, but not limited to, vesting and allocation provisions and the disposition of forfeitures? [SFAS 35, par. 28a (AC Pe5.127a); AAG, par. 3.23a; SOP 94-6, par. 10]	_____	_____	_____

³ ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form. [AAG, par. 3.10, fn. 8]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<hr/> Note: If material providing this information is otherwise published and made available to participants (e.g., employee handbook), the disclosures required by SFAS 35, paragraph 28a can be omitted provided that a reference to the other source is made. <hr/>			
2. Do disclosures include the amount of unallocated assets, as well as the basis used to allocate asset values to participants' accounts when that basis differs from the one used to record assets in the financial statements? [AAG, par. 3.23c]	_____	_____	_____
E. Disclosure of Accounting Policies			
1. Is a description of all significant accounting policies presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	_____	_____	_____
2. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
3. Does the disclosure of the significant accounting policies include a description of the methods and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? [SFAS 35, par. 27a (AC Pe5.126a); AAG, par. 3.22]	_____	_____	_____
F. Description of Plan Amendments			
1. Do disclosures include a description of significant plan amendments adopted during the year, and the effects of such amendments on net assets if significant either individually or in the aggregate? [SFAS 35, par. 28b (AC Pe5.127b); AAG, par. 3.23b]	_____	_____	_____
G. Accounting Changes			
1. For all changes in accounting principles, are disclosures made in the year of change as to the:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change, including a clear explanation of why the newly adopted principle is preferable?	_____	_____	_____
c. Effect on net additions (deductions) to the plan's net assets? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, have such disclosures been made? [APB 20, pars. 19–22 and 25 (AC A06.115–.118 and .121)]	_____	_____	_____
3. When SOP 94-4 is adopted, is the effect of initially applying this SOP reported in a manner similar to the cumulative effect of a change in accounting principle (APB 20, paragraph 20)? [SOP 94-4, par. 19]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Note: Pro forma effects of retroactive application (APB 20, paragraph 21) are not required. Restatement of prior years is not permitted.			
4. For changes in accounting estimates:			
a. If a change in an accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
b. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change? [APB 20, par. 38 (AC A06.133)]	_____	_____	_____
5. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction?	_____	_____	_____
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on the changes in the net assets available for benefits? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____
6. For a change in reporting entity, such as a merger of two or more plans, are the transferred assets reported as a separate line item in the "Statement of Changes in Net Assets," and is the nature of the change and the reason for it disclosed? [APB 20, pars. 34 and 35 (AC A35.112 and .113)]	_____	_____	_____

H. Related-Party Transactions

1. For related-party transactions, do disclosures include:			
a. The nature of the relationship(s) involved?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which "Statements of Changes in Net Assets Available for Benefits" are presented, and such other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
c. The dollar amounts of transactions for each of the periods for which "Statements of Changes in Net Assets Available for Benefits" are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
d. Amounts due from or to related parties as of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2–4 (AC R36.102–.104)]	_____	_____	_____
2. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG, par. 3.23h and App. A, par. A.51c]	_____	_____	_____

Note: ERISA defines a party-in-interest generally as any fiduciary or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee organization whose members are covered by the plan, a person who owns 50 percent or more of such an employer or employee association, or relatives of a person described above.

[AAG 11.01, App. A, par. A.84, fn. 103; ERISA sec. 3(14)]

I. Contingencies and Commitments

1. Are the nature and amount of accrued loss contingencies, including those related to litigation, claims, and assessments, disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, pars. 9 and 34 (AC C59.108 and .140)]	_____	_____	_____
2. For loss contingencies not accrued, including those related to litigation, claims, and assessments, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, pars. 10 and 33–39 (AC C59.109, .111, and .139–.145)]	_____	_____	_____
3. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]	_____	_____	_____
4. Are the nature and amount of guarantees (e.g., guarantees of indebtedness of others) disclosed? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1–3 (AC C59.114)]	_____	_____	_____

J. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"? [SFAS 5, par. 8 (AC C59.105); SAS 1, sec. 560.03, .04, and .07 (AU 560.03, .04, and .07)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed? ⁴ [SFAS 5, par. 11 (AC C59.112); SAS 1, sec. 560.05–.07 and .09 (AU 560.05–.07 and .09); AAG, pars. 3.23n and 3.33]	_____	_____	_____

K. Plan Terminations

1. If a decision is made to terminate the plan, are all relevant circumstances of this fact disclosed? [AAG, par. 3.33]	_____	_____	_____
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⁴ Also, consider the appropriateness of dual dating the auditor's report for the subsequent event. [SAS 1, sec. 530.05 (AU 530.05)]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. If a decision is made to terminate the plan before the end of the plan year, are the plan's year-end financial statements prepared on the liquidation basis? [AAG, pars. 3.33 and 3.34]	_____	_____	_____
3. If a decision is made to terminate the plan after the end of the plan year but before the financial statements have been issued, is this fact disclosed? [SAS 1, sec. 560.05 (AU 560.05); AAG, par. 3.33]	_____	_____	_____
L. Income Tax Status			
1. If a favorable letter of determination is not obtained or maintained, is the federal income tax status of the plan disclosed? ⁵ [AAG, par. 3.23f]	_____	_____	_____
M. Financial Instruments⁶			
1. If the plan has financial instruments with (a) off-balance-sheet risk, (b) off-balance-sheet credit risk, or (c) significant concentrations of credit risk (except for those excluded in SFAS 105), are the required disclosures made of SFAS 105, <i>Disclosure of Information About Financial Instruments with Off-Balance Sheet Risk and Financial Statements with Concentrations of Credit Risk</i> , paragraphs 17, 18, and 20, as amended by SFAS 119, <i>Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments</i> , paragraph 14b and d? [SFAS 105, pars. 17, 18, and 20, as amended by SFAS 119, par. 14b and d]	_____	_____	_____
2. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, in accordance with SFAS 107, <i>Disclosures about Fair Value of Financial Instruments</i> , paragraphs 10 through 13, as amended by SFAS 119, paragraph 15a–d? [SFAS 107, pars. 10–14, as amended by SFAS 119, par. 15a–d (AC F25.115)]	_____	_____	_____
3. If it is not practicable to estimate the fair market value of a financial instrument are disclosures made in accordance with SFAS 107, as amended, paragraph 14? [SFAS 107, as amended, par. 14 (AC F25.115)]	_____	_____	_____
Note: ERISA requires all investments to be valued at fair market value. Although the above disclosure is appropriate for GAAP purposes, it is not accepted by the DOL.			
4. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a "Statement of			

⁵ Reports filed in accordance with the requirements of ERISA must include disclosure of "information concerning whether or not a tax ruling or determination letter has been obtained," which is more than is required by SFAS 35, as amended. [AAG, par. 3.23f]

⁶ SFAS 105, as amended by SFAS 119, requires plans to disclose information principally about financial instruments with off-balance-sheet risk and concentrations of credit risk. Some examples of financial instruments of employee benefit plans with off-balance sheet risk that are included within the scope of SFAS 105, are obligations to repurchase securities sold, outstanding commitments to purchase or sell financial instruments at predetermined prices, future contracts, and interest rate and foreign currency swaps. SFAS 107, as amended by SFAS 119, requires plans to disclose fair value of financial instruments for which it is practicable to estimate fair value. The required disclosures of SFASs 105 and 107 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined-contribution plans, however, if the plan does have these instruments please refer to SFAS 105, paragraphs 17–20 and SFAS 107, paragraphs 10–14 for the disclosure requirements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Net Assets Available for Benefits” is presented for comparative purposes? [SFAS 107, par. 17]	_____	_____	_____
N. Derivatives⁷			
1. If the plan has derivative financial instruments, are the required disclosures of SFAS 119, <i>Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments</i> , made? [SFAS 119, pars. 8–13]	_____	_____	_____
O. Risks and Uncertainties			
1. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management’s estimates included in the financial statements? [SOP 94-6, par. 11]	_____	_____	_____
2. Is disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that the following criteria are met:			
a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events?	_____	_____	_____
b. The effect of the change would be material to the financial statements? [SOP 94-6, par. 13]	_____	_____	_____
3. Does the disclosure in Step 2 above indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in estimate will occur in the near term? ⁸ [SOP 94-6, par. 14]	_____	_____	_____
4. If the estimate in Step 2 above involves a loss contingency covered by SFAS 5, <i>Accounting for Contingencies</i> , do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made? [SOP 94-6, par. 14]	_____	_____	_____
5. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 are met? [SOP 94-6, pars. 21 and 22]	_____	_____	_____
P. Other Matters			
1. Do disclosures include the basis for determining contributions by employers and any changes in such policy during the plan year? [SFAS 35, par. 28d, fn. 17 (AC Pe5.127d); AAG, par. 3.23d]	_____	_____	_____

⁷ SFAS 119 requires disclosures about amounts, nature, and terms of derivative financial instruments that are not subject to SFAS 105 because they do not result in off-balance sheet risk of accounting loss. It requires that a distinction be made between financial instruments held or issued for trading purposes and financial instruments held or issued for purposes other than trading. SFAS 119 requires additional disclosures about those derivative financial instruments held for purposes other than trading, and those accounted for as hedges of anticipated transactions. The required disclosures of SFAS 119 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined-contribution plans however if the plan does have these instruments please refer to SFAS 119 for the disclosure requirements.

⁸ If risk reduction techniques are used to mitigate losses or the uncertainty that may result from certain events, these disclosures are encouraged but not required.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. If significant costs of plan administration are being absorbed by the employer, is this fact disclosed? [SFAS 35, par. 28d, fn. 17 (AC Pe5.127d, fn. 22); AAG, par. 3.23d, fn. 12]	_____	_____	_____
b. For a contributory plan, does the disclosure state the method of determining the participants' contributions? [SFAS 35, par. 28d (AC Pe5.127d); AAG, par. 3.23d]	_____	_____	_____
2. Do disclosures include significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (a) the sponsor, (b) the employer(s), or (c) the employee organizations(s)? [See also section H, Related-Party Transactions, regarding parties-in-interest.] [SFAS 35, par. 28h (AC Pe5.127); AAG, par. 3.23h]	_____	_____	_____
3. For plans that assign units to participants, do disclosures include the total number of units and the net asset value per unit during the period and at the end of the period? [AAG, par. 3.23l]	_____	_____	_____
4. Do disclosures include the amount and disposition of forfeited non-vested accounts, specifically, identification of those amounts that will be used to reduce future employer contributions? [AAG, par. 3.23o]	_____	_____	_____

Statement of Net Assets Available for Benefits

A. General

- | | | | |
|---|-------|-------|-------|
| 1. Is the information in the "Statement of Net Assets Available for Benefits" presented in such reasonable detail as is necessary to identify the plan's resources that are available for benefits?
[SFAS 35, par. 9 (AC Pe5.108)] | _____ | _____ | _____ |
|---|-------|-------|-------|

B. Classification of Investments

- | | | | |
|--|-------|-------|-------|
| 1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or otherwise determined?
[SFAS 35, par. 13 (AC Pe5.112); AAG, par. 3.12] | _____ | _____ | _____ |
| 2. Are the following investments reported as separate line items in the "Statement of Net Assets Available for Benefits": | | | |
| a. Government securities? | _____ | _____ | _____ |
| b. Short-term securities? | _____ | _____ | _____ |
| c. Corporate bonds? | _____ | _____ | _____ |
| d. Common stocks? | _____ | _____ | _____ |
| e. Preferred stocks? | _____ | _____ | _____ |
| f. Mortgages? | _____ | _____ | _____ |
| g. Loans to participants? | _____ | _____ | _____ |
| h. Real estate? | _____ | _____ | _____ |
| i. Investments in bank common and commingled trust funds? | _____ | _____ | _____ |
| j. Master trusts? | _____ | _____ | _____ |
| k. Investments in contracts with insurance companies, including separate accounts, deposit administration (DA) and immediate participation guarantee (IPG) contracts?
[AAG, par. 3.16] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Do disclosures indicate whether the fair values of the investments have been measured by quoted market prices in an active market or were otherwise determined? [AAG, par. 3.16]	_____	_____	_____
4. Are investments that represent 5 percent or more of the plan's net assets available for benefits separately identified in the financial statements or notes thereto? [SFAS 35, par. 38g (AC Pe5.127g); AAG, par. 3.23g]	_____	_____	_____

Note: Listing all investments in the "Schedule of Assets Held for Investment Purposes" required by ERISA does not eliminate the requirement to include this disclosure in the financial statements.

[AAG, par. 3.23g]

5. Do disclosures include a description of the basis used to allocate net assets, net investment income, gains and losses to participating plans, and the plan's percentage interest in a master trust as of the date of each "Statement of Net Assets Available for Benefits"? [AAG, par. 3.27]	_____	_____	_____
6. Are the investments of a master trust detailed by general type, such as government securities, short-term securities, corporate bonds, common stocks, mortgages, and real estate, as of the date of each "Statement of Net Assets Available for Benefits" presented? [AAG, par. 3.27]	_____	_____	_____
7. Do disclosures include investments pledged to secure debt of the plan as well as a description of the provisions regarding the release of such investments from the pledge and the amounts of investments released from the pledge in the last period? [AAG, par. 3.23i]	_____	_____	_____
8. If the plan provides for participant-directed ⁹ separate investment fund options, do the disclosures include:			
a. Information about the net assets and significant components of the changes in net assets for each investment fund option?	_____	_____	_____
b. Separate disclosure of participant-directed and non participant-directed portions?	_____	_____	_____
c. If investment fund options are aggregated, that fact should be disclosed? ¹⁰	_____	_____	_____
d. Changes in participant directed investments presented in one column as one fund option? [AAG, par. 3.23k; PB 12]	_____	_____	_____

C. Investment and Insurance Contracts

1. If the plan has adopted SOP 94-4, is the effect of initial application reported in a manner similar to the cumulative effect of a change in accounting principle? [APB 20, par. 20; SOP 94-4, par. 19]	_____	_____	_____
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⁹ A plan provides for participant-directed investment programs if it allows participants to choose among various investment alternatives.

¹⁰ Aggregation of investment fund options with similar investment objectives is not appropriate (except for materiality considerations). However, if the plan provides for self-directed investing whereby each participant selects his or her own specific investments, changes in these investments may be aggregated and presented in one column as one fund option. [AAG, par. 3.23k]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<hr/> <p>Note: Pro forma effects of retroactive application are not required. [APB 20, par. 21] Restatement of financial statements of prior years is not permitted. [SOP 94-4, par. 19]</p> <hr/>			
2. Are fully benefit-responsive investment contracts reported at contract value, which may or may not be equal to fair value, and all other investment contracts at fair value? [SOP 94-4, par. 4]	_____	_____	_____
3. If management is aware that an event has occurred that may affect the value of a fully benefit-responsive contract, pursuant to SFAS 5, <i>Accounting for Contingencies</i> , is the event disclosed or is the investment reported at less than contract value?	_____	_____	_____
<hr/> <p>Note: A fully benefit-responsive investment contract provides a liquidity guarantee by a financially responsible third party of principal and previously accrued interest for transactions initiated by plan participants under the terms of the ongoing plan. [SOP 94-4, par. 10]</p> <hr/>			
4. Are insurance contracts, as defined by SFAS 60, <i>Accounting and Reporting by Insurance Enterprises</i> , reported in the same manner required by ERISA annual reporting requirements of DOL Forms 5500-5500 C/R, that is either at fair value or at amounts determined by the insurance enterprise (contract value)? [SOP 94-4, par. 17b]	_____	_____	_____
5. Are the following disclosed, in the aggregate by investment option, for fully benefit-responsive investment contracts:			
a. The average yield for each period for which a statement of net assets available for benefits is presented?	_____	_____	_____
b. The crediting interest rate as of the date of each statement of net assets available for benefits presented?	_____	_____	_____
c. The amount of valuation reserves recorded to adjust contract amounts (for example, due to problems with the credit-worthiness of the contract issuer or third-party guarantor)?	_____	_____	_____
d. The fair value of investment contracts reported at contract value, in accordance with SFAS 107, <i>Disclosures about Fair Value of Financial Instruments</i> ? [SOP 94-4, pars. 15 and 17g]	_____	_____	_____
6. Do disclosures include a general description of the basis and frequency of determining crediting interest-rate resets and any minimum crediting interest rate under the terms of fully benefit-responsive investment contracts and any limitations on guarantees (for example, premature termination of the contracts by the plan, plant closings, layoffs, plan termination, bankruptcy, mergers, and early retirement incentives)? [SOP 94-4, pars. 15 and 17g]	_____	_____	_____
7. For ERISA-covered plans, is an explanation provided for differences between amounts reported in the financial statements and DOL Form 5500, if a fully benefit-responsive investment contract does not qualify for contract-value reporting in the DOL Form 5500, but is reported in			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
the financial statements at contract value, and the contract value does not approximate fair value? [SOP 94-4, pars. 16 and 17g]	_____	_____	_____
D. Operating Assets			
1. Are assets used in the operations of the plan, such as buildings, equipment, and furniture and fixtures, presented at cost less accumulated depreciation or amortization? [SFAS 35, par. 14 (AC Pe5.113); AAG, par. 3.18]	_____	_____	_____
2. Do the financial statements or notes thereto include disclosure of:			
a. Depreciation expense for each period? [APB 12, par. 5a (AC D40.105a)]	_____	_____	_____
b. Balances of major classes of depreciable assets by nature or function? [APB 12, par. 5b (AC D40.105b)]	_____	_____	_____
c. Accumulated depreciation, either by major classes of assets or in total? [APB 12, par. 5c (AC D40.105c)]	_____	_____	_____
d. The method or methods used in computing depreciation for each major class of depreciable assets? [APB 12, par. 5d (AC D40.105d); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
3. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with SFAS 121, <i>Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of</i> , paragraphs 13, 14, and 19? ¹¹	_____	_____	_____
E. Contributions Receivable and Uncollectible Amounts			
1. Are the following contributions receivable separately identified:			
a. Receivables from employer(s)?	_____	_____	_____
b. Receivables from participants?	_____	_____	_____
c. Other sources of funding pursuant to formal commitments as well as legal or contractual requirements? [SFAS 35, par. 10 (AC Pe5.109); AAG, par. 3.17]	_____	_____	_____
2. Do contributions receivable include an allowance for uncollectible amounts? [SFAS 35, par. 91 (AC Pe5.109); AAG, par. 3.17]	_____	_____	_____
F. Cash			
1. Is separate disclosure made of restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	_____	_____	_____
G. Liabilities			
1. Are liabilities (other than for benefits) deducted in arriving at net assets available for plan benefits? [AAG, par. 3.19]	_____	_____	_____

¹¹ SFAS 121 establishes accounting standards for the impairment of long-lived assets to be held and used and assets to be disposed of. SFAS 121 requires that long-lived assets to be held and used by the plan be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The required disclosures of SFAS 121 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined-contribution plans however if the plan recognizes an impairment of long-lived assets please refer to SFAS 121, paragraphs 13, 14, 18, and 19 for the disclosure requirements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<hr/> Note: Amounts allocated to accounts of persons who have elected to withdraw from the plan but have not yet been paid should not be reflected as liabilities? [AAG, pars. 3.19 and 3.23m] <hr/>			
2. Consider stating separately:			
a. Due to broker for securities purchased?	_____	_____	_____
b. Accounts payable?	_____	_____	_____
c. Accrued expenses? [AAG, par. 3.19, App. E]	_____	_____	_____
3. Do disclosures include guarantees by others of debt of the plan? [AAG, par. 3.23j]	_____	_____	_____

Statement of Changes in Net Assets Available for Benefits

A. General

1. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) illustrate the net appreciation (depreciation) in the fair value of each significant class of investment, segregated between investments whose fair values have been measured by quoted market prices in an active market and those whose fair values have been otherwise determined? [SFAS 35, par. 15 (AC Pe5.114); AAG, par. 3.20]	_____	_____	_____
2. At a minimum, does the "Statement of Changes in Net Assets Available for Benefits" disclose:			
a. Investment income (exclusive of changes in fair value)?	_____	_____	_____
b. Contributions from employer(s), segregated between cash and noncash contributions?	_____	_____	_____
c. Contributions from participants, including those transmitted by the sponsor?	_____	_____	_____
d. Contributions from other sources (e.g., state subsidies or federal grants)?	_____	_____	_____
e. Benefits paid to participants?	_____	_____	_____
f. Payments to insurance companies to purchase contracts that are excluded from plan assets?	_____	_____	_____
g. Administrative expenses?	_____	_____	_____
h. Other changes? [SFAS 35, par. 15 (AC Pe5.114); AAG, pars. 3.20 and 3.21]	_____	_____	_____

B. Contributions

1. Is the nature of noncash contributions described, either parenthetically or in a footnote? [SFAS 35, par. 15c, fn. 8 (AC Pe5.114c, fn. 12); AAG, par. 3.20c]	_____	_____	_____
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C. Investment Earnings

1. Does the net appreciation (depreciation) in the fair value of investments (see Step A.1. above) include realized gains and losses on investments that were both bought and sold during the year? [SFAS 35, par. 15, fn. 7 (AC Pe5.114, fn.10); AAG, par. 3.20]	_____	_____	_____
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Is the net change in the fair value of each significant type of investment of a master trust and total investment income of the master trust by type (e.g., interest, dividends, etc.) disclosed for each period for which a "Statement of Changes in Net Assets Available for Benefits" is presented? [AAG, par. 3.27]	_____	_____	_____

D. Other Changes

1. If there are other changes, such as significant transfer of assets to or from other plans, are they disclosed? [AAG, par. 3.21]	_____	_____	_____
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ERISA Reporting Requirements

A. Form 5500 Series Report

1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP, the cash basis or modified accrual basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards? [AAG, App. A, par. A.18]	_____	_____	_____
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Note: Pursuant to DOL Regulations 29 CFR 2520.103-1(d), a plan that covers between 80 and 120 participants at the beginning of the plan year may elect to file the same report that was filed the previous year. Plans that file the Form 5500-C/R pursuant to the 80/120 rule are not required to have an audit of their financial statements.
[ref. DOL Reg. 29 CFR 2520.104-46]

B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements of the pension plan are filed under the "alternative method" pursuant to DOL Regulations Section 2520.103-1(a)(2), do the disclosures in the financial statements include:			
a. A description of accounting principles and variances from GAAP?	_____	_____	_____
b. A description of the plan, including significant changes in the plan, and the effect of the changes on benefits?	_____	_____	_____
c. The funding policy and changes in the funding policy from the prior year?	_____	_____	_____
d. A description of material lease commitments, and other commitments and contingent liabilities?	_____	_____	_____
e. A description of any agreements and transactions with persons known to be parties-in-interest?	_____	_____	_____
f. A general description of priorities in the event of plan termination?	_____	_____	_____
g. Whether a tax ruling or determination letter has been obtained?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500? [AAG, App. A, par. A.50c]	_____	_____	_____

C. Required Financial Statements and Supporting Schedules

1. For plans filing under either method are the following financial statements included and covered by the auditor's report:
 - a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year? _____
 - b. Separate or combined statements of plan income and expenses and of changes in net assets? _____
[AAG, App. A, par. A.51a]
2. Pursuant to DOL regulations, are the following *separate schedules* included with the financial statements of the plan and covered by the auditor's report:

Note: The instructions to the Form 5500 provide specific information as to the form and content of the various schedule requirements.

a. Assets held for investment purposes (one schedule of assets held at plan year-end and one schedule of certain assets acquired and disposed of within the plan year):			
(1) Is the schedule clearly labeled "Line 27a—Schedule of Assets Held for Investment Purposes"?	_____	_____	_____
b. Loans or fixed income obligations that are in default or uncollectible:			
(1) Is the schedule clearly labeled "Line 27b—Schedule of Loans or Fixed Income Obligations"?	_____	_____	_____
c. Leases in default or uncollectible:			
(1) Is the schedule clearly labeled "Line 27c—Schedule of Leases in Default or Classified as Uncollectible"?	_____	_____	_____
d. Reportable transactions, including all individual security transactions that exceed 5 percent of the fair value of plan assets at the beginning of the year:			
(1) Is the schedule clearly labeled "Line 27d—Schedule of Reportable Transactions"?	_____	_____	_____
e. Non-exempt transactions with parties-in-interest:			
(1) Is the schedule clearly labeled "Line 27e—Schedule of Non-exempt Transactions" and/or "Line 27f—Schedule of Non-exempt Transactions"? [Instructions to Form 5500]	_____	_____	_____
3. Pursuant to DOL regulations:			
a. Is the auditor's report dated and manually signed?	_____	_____	_____
b. Does it indicate the city and state where issued?	_____	_____	_____
c. Does it identify the statements and schedules covered? [AAG, App. A; 29 CFR 2520.103-2]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. Does the auditor's report:			
a. Disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?	_____	_____	_____
b. State clearly the auditor's opinion of the financial statements and schedules covered by the report, and the accounting principles and practices reflected therein?	_____	_____	_____
c. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matter on the related financial statements?	_____	_____	_____
d. Are the exceptions, if any, further identified as (a) those that are the result of DOL regulations, and (b) all others? [DOL Regulations 29 CFR 2520]	_____	_____	_____

FSP Section 8400

Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 In December, 1995, Statement on Auditing Standards No. 79, *Amendment to Statement on Auditing Standards No. 58, Reports on Audited Financial Statements*, was issued. This Statement amends SAS 58 to eliminate the requirement that, when certain criteria are met, the auditor add an uncertainties explanatory paragraph to the auditor's report. This Statement is effective for reports issued after February 29, 1996 and has been reflected in this checklist.

.03 Explanation of References:

AAG =	AICPA Audit and Accounting Guide <i>Audits of Employee Benefit Plans</i> —with conforming changes as of May 1, 1996 ¹
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
SSARS =	AICPA Statements on Standards for Accounting and Review Services
AR =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 2)
DOL =	Department of Labor
CFR =	Code of Federal Regulations

.04 Checklist Questionnaire:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
b. Date (or dual dates) of the report? [SAS 1, sec. 530.05 (AU 530.05)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
<hr/> Note: DOL Regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued. <hr/>			
2. If the auditor is not independent, is a compilation report that indicates lack of independence issued? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
3. Does the reporting language conform with the auditor's standard report on:			

¹ This checklist has been updated through the Audit and Accounting Guide *Audits of Employee Benefit Plans* with conforming changes as of May 1, 1996 (the Guide), prior to the Guide's release. All appropriate disclosures have been included in the checklist, although paragraph references to the final Guide may differ from those of the draft Guide.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Financial statements of a single year or period?	_____	_____	_____
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
4. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 47 and 48 (AU 508.47 and .48)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14–17 (AU 504.14–.17)]	_____	_____	_____
c. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL Regulations? [AAG, pars. 13.10–13.18]	_____	_____	_____
d. The financial statements of the plan include separate Investment Fund Information? [AAG, pars. 13.34–13.36]	_____	_____	_____
Note: AAG includes additional auditor reports with respect to “financial statements of a trust” and “inadequate procedures to value investments.”			
5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:			
a. There is substantial doubt about the plan’s ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase “substantial doubt about its ability to continue as a going concern”? ² [SAS 59, par. 13, as amended by SAS 64 and SAS 77 (AU 341.12 and .13); AAG, par. 13.38]	_____	_____	_____
b. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, as amended by SAS 79, pars. 34–36 (AU 508.16–.18)]	_____	_____	_____
c. In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed? [SAS 58, as amended by SAS 79, pars. 68, 69, 72, and 73 (AU 508.68, .69, .72, and .73)]	_____	_____	_____
d. The prior period financial statements are audited by a predecessor auditor whose report is not presented? [SAS 58, par. 83, as amended by SAS 64 and SAS 79, par. 74 (AU 508.74)]	_____	_____	_____
e. The auditor’s opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12 and 13 (AU 508.12 and .13)]	_____	_____	_____
f. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation? [SAS 58, pars. 14 and 15 (AU 508.14 and .15)]	_____	_____	_____

² In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity’s ability to continue as a going concern. See SAS 77 for sample wording. [SAS 59, par. 13, as amended by SAS 64 and SAS 77]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
g. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
h. The auditor decides to emphasize a matter in the report? [SAS 58, as amended by SAS 79, par. 19 (AU 508.19); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
Note: DOL Regulation Section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL Regulations.			
6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances? ³ [SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–.27); SAS 19, par. 12 (AU 333.12)]	_____	_____	_____
Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under “Scope of Audit — Limitations” for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.			
7. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR section 2520.103-8, is a disclaimer of opinion expressed? [AAG, pars. 13.25–13.28]	_____	_____	_____
8. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAAP (including inadequate disclosure) is present? ⁴ [SAS 58, as amended by SAS 79, pars. 35–57 (AU 508.35–.57); SAS 32, par. 3 (AU 431.03); AAG par. 13.23]	_____	_____	_____
Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under “Departures from Established Principles,” “Adverse Opinions,” and “Qualified Opinions” for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.			
9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the report appropriately modified? [SAS 58, as amended by SAS 79, pars. 21, 59, 60, and 62 (AU 508.21, .59, .60, and .62)]	_____	_____	_____
10. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, does the report on the accompanying information:			

³ This includes when the auditor is unable to obtain sufficient, evidential matter to support managements assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31]

⁴ The auditor should express a qualified or an adverse opinion if the auditor concludes that (a) a matter involving a risk or an uncertainty is not adequately disclosed, (b) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (c) management’s estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [SAS 58, as amended by SAS 70, pars. 46–49]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. State that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identify the accompanying information?	_____	_____	_____
c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. State whether the accompanying information was subject to the auditing procedures applied in the audit of the basic financial statements and the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6–11 (AU 551.06–.11)]	_____	_____	_____
<hr/> Note: Step 10 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103–.08. In these situations, see Step 7 above and AAG paragraph 13.25. <hr/>			
11. Is the reporting form and content of SAS 60, paragraphs 9–19, followed when communicating internal control structure related matters noted in an audit? ⁵ [SAS 60, pars. 9–19 (AU 325.09–.19)]	_____	_____	_____

⁵ Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of trustees or its audit committee. [SAS 60]

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